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The Egyptian Economy: 1975 Prognosis

1975 may be a difficult year economically for Egypt even though the long term outlook continues to improve. Shortages, underemployment and other familiar problems will persist alongside new strains created by rapid economic development and liberalization. Impatience on the part of the Egyptian public and Egypt's many benefactors is likely to increase, intensifying the pressures under which the Sadat regime is operating.

Total output may grow faster next year than at any time during the past decade. Steady progress in the agricultural sector will continue and a determined effort to use excess manufacturing capacity may bear fruit before the end of 1975. The principal impetus, however, will come from sharply increased investment in the Suez Canal area development, in hotel construction, in oil exploration and in transportation. Before the year is out one or more large petrochemical projects also may be underway.

Ample financing is available for these investment projects, but Egypt may lack the resources to noticeably 25X1

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improve living standards in 1975. Unless the USSR is willing to continue to ignore Egypt's military debt repayment obligations, much of the anticipated increase in manufacturing output may have to be earmarked for the Soviet market. Furthermore, if the Egyptian Cotton Board has correctly judged the trend of long staple cotton prices agricultural export earnings could be at least $100 million lower than the record 1974 level, negating much of the anticipated gains from tourism and from the reopened Suez Canal. Similarly, output from Egypt's two new oil fields may be offset by closure of El Morgan if a long delayed pressurization program finally gets underway. Under these circumstances, cash reserves, Rabat aid, and some $300 million in untied trade credits will guarantee a continuation of 1974 per capita consumption levels but will not support the rapid improvement that the Egyptian public expects.

Should recovery of the Sinai oil fields or some other windfall increase untied foreign exchange available to Egypt, the government would be confronted with a serious economic choice. In order to accommodate an increased flow of consumer goods into Egypt's congested ports, the arrival of material for an enlarged investment

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program would have to be curbed. Such a move would discourage many investors, resulting in the forfeiture of some of the foreign capital now available.

On the other hand if Sadat opts to forcefully push economic liberalization and foreign investment in 1975, the urban consumer inevitably will suffer. With new investors and newly affluent consumers competing for a nearly fixed quantity of goods and with a new quasi-private financial sector groping for control, inflation in the de-controlled sectors of the Egyptian economy could be rampant. Widespread disenchantment with economic liberalization could result, forcing the Sadat regime to rely more heavily on the socialist approach to economic development.

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